

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Audited Basic Financial Statements

For Years Ended June 30, 2012 and 2011

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Audited Basic Financial Statements
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Independent Auditor's Report on Basic Financial Statements

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency
Ventura, California

We have audited the accompanying basic financial statements of the Fox Canyon Groundwater Management Agency (the "Agency") as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, an intangible asset was identified during the year ended June 30, 2012 for which costs had been incurred dating back to the year ending June 30, 2010, but which had not previously been capitalized. The June 30, 2011 comparative financial statements presented have been restated to reflect the capitalization of these costs.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fox Canyon Groundwater Management Agency, as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2013 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, referred to in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the Management's Discussion and Analysis departs materially from the prescribed guidelines by presenting the information required only for the most recent fiscal year and not for both fiscal years presented in the financial statements. Management is aware of the departure and has simply elected to focus the Management's Discussion and Analysis on more current information. We do not express an opinion or provide any assurance on the information.


Collins Accountancy Company
Lincoln, California
April 18, 2013

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

Our discussion and analysis of the Fox Canyon Groundwater Management Agency (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ending June 30, 2012. Please read it in conjunction with the financial statement following this section.

FINANCIAL HIGHLIGHTS

- Agency assets at June 30, 2012 exceeded liabilities by \$3,736,764. Of this amount \$280,679 is classified as Invested in Capital Assets (this represents the Agency's investment in capital assets net of accumulated depreciation); \$3,456,085 is classified as *Unrestricted* and may be used to meet ongoing obligations of the Agency. \$1,004,961 of this amount is considered *Designated*, consisting of \$504,961 designated for groundwater extraction enforcement activities and \$500,000 designated for the Groundwater Supply Enhancement Assistance Program.
- Operating revenues for 2012 were \$457,375 higher than 2011, a 60.0 percent increase.
- Total Expenses for 2012 were \$6,508 lower than 2011, a 1.0 percent decrease.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of two components: 1) **Enterprise financial statements**, and 2) **Notes to the financial statements**.

The **Enterprise financial statements** are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all Agency assets and liabilities, with differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information on how net assets changed during the most recent two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses reported in this statement include some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents information on how cash changed during the most recent two fiscal years.

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Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

Under Governmental Accounting Standards Board Statement 34 (GASB 34), the Agency is considered a special purpose government engaged in the preservation of groundwater resources within the territory of the Agency. The GASB 34 definitions require that the Agency provide its financial statements in an enterprise (business activity) format. The Agency is funded primarily through user extraction charges.

The basic financial statements can be found on pages 12 thru 14 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements begin on page 15 of this report.

FINANCIAL ANALYSIS

The Fox Canyon Groundwater Management Agency (the "Agency") was created by the State of California on September 13, 1982, under Assembly Bill No. 2995 Chapter 1023. The Agency was created to manage the groundwater in over drafted and potentially seawater intruded areas in Ventura County. The prime Agency objective is to preserve groundwater resources for agricultural, municipal, and industrial uses in the best interests of the public and for the common benefit of all water users. A five-member board of directors governs the Agency. The Agency has no employees but contracts with the County of Ventura for staff services to provide professional and technical expertise, legal, administrative and fiscal services needed to run the day-to-day operations of the organization.

Revenues

Extraction Charges:

The primary revenue source for the Agency is extraction charges that are assessed at \$4.00 per acre-foot against all well owners within the geographic boundaries of the Agency. For 2012 approximately 123,685 acre feet of water was pumped by well owners generating \$494,740 in revenue.

Surcharges:

The intent of the surcharge is to discourage extraction of groundwater in excess of the approved allocation when that extraction will adversely affect achieving safe yield of any basin within the Agency. Surcharges are assessed using a tiered structure with a base of \$1,105 for 25 acre-feet or less; an additional \$250 per acre-foot over 25 but less than 100 acre-feet and an

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Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

additional \$500 per acre-foot over 100 acre-feet. Approximately 470 acre-feet of water was pumped for total revenue of \$718,844.

Interest:

The Agency receives interest revenue from the Ventura County Treasury Pool (VCTP) where the Agency's cash is invested and from two settlement agreements relating to unreported water usage. Of the \$29,349 interest revenue reported, \$13,498 was earned on cash invested with the VCTP and \$15,851 was earned on the two settlement agreements.

Table 1 below provides a comparison of the Agency's Statements of Net Assets at June 30, 2012 and 2011 in a condensed format:

Table 1
Condensed Statements of Net Assets
June 30 2012 Compared with June 30, 2011

	FY2012	FY2011	Change Positive (Negative)
Assets			
Current assets	\$2,825,960	\$2,287,783	\$538,177
Capital assets	280,679	228,272	52,407
Other noncurrent assets	749,699	891,391	(141,692)
Total Assets	\$3,856,338	\$3,407,446	\$448,892
Liabilities			
Current Liabilities	\$119,574	\$79,210	\$40,364
Net Assets			
Invested in capital assets	\$280,679	\$228,272	\$52,407
Unrestricted	3,456,085	3,099,964	356,121
Total Net Assets	\$3,736,764	\$3,328,236	\$408,528

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Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

Table 2 below provides the results of the Agency's financial activities as of June 30, 2012 and 2011 and the impact on Net Assets.

Table 2
Changes in Net Assets for 2012
Compared with 2011 Activity

	FY2012	FY2011	Change Positive (Negative)
Operating Revenues:			
Extraction charges & Surcharges	\$1,213,584	\$756,857	456,727
Penalties	8,906	8,962	(56)
Miscellaneous Revenue	704	-	704
Non-Operating Revenues:			
Other-State Aid	-	237	(237)
Interest Earnings	29,349	42,988	(13,639)
Total Revenues	\$1,252,543	\$809,044	\$443,499
Program Expenses			
General Government	844,015	850,523	6,508
Total Expenses	844,015	850,523	6,508
Increase/(Decrease) in Net Assets	<u>\$408,528</u>	<u>\$(41,479)</u>	<u>\$450,007</u>

As the chart shows, for 2012, the Agency's revenue exceeded its expenses by \$408,528 which resulted in a corresponding increase the Agency's Net Assets. This compares very favorably against the \$41,479 decrease experienced for 2011. The net increase of \$408,528 realized in 2012 is due to a combination of accounting events discussed below.

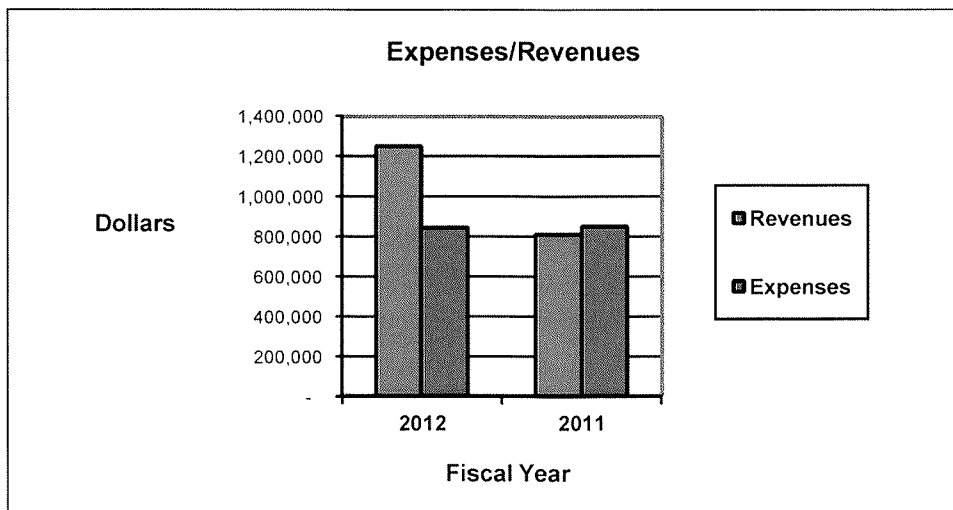
Operating revenues from extraction/surcharges for 2012 were \$456,727 greater when compared to 2011. The increase is primarily a result of variances in surcharge fees incurred and paid by Houweling Nurseries. For 2012 Houweling paid \$693,021 in surcharge fees which was \$461,255 more than the \$231,766 paid in 2011. Due to the volatile nature of these fees, which vary based on the well owner's pumping activities, the Agency budgets a minimal amount as an ongoing revenue source.

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On the expense side, General Government activities decreased by \$6,508 in 2012 when compared to 2011. The decrease is a result of the combined effect of a decrease in Public Works Agency charges offset by increased cost in Professional Specialty Services related to services performed by the Source Group/ United Water Conservation and the Irrigation Training and Research Center at California Polytechnic State University, and first year recognition of depreciation on the Agency's on-line database.

The following graph illustrates the relationship between expenses and revenues for 2012 and 2011.

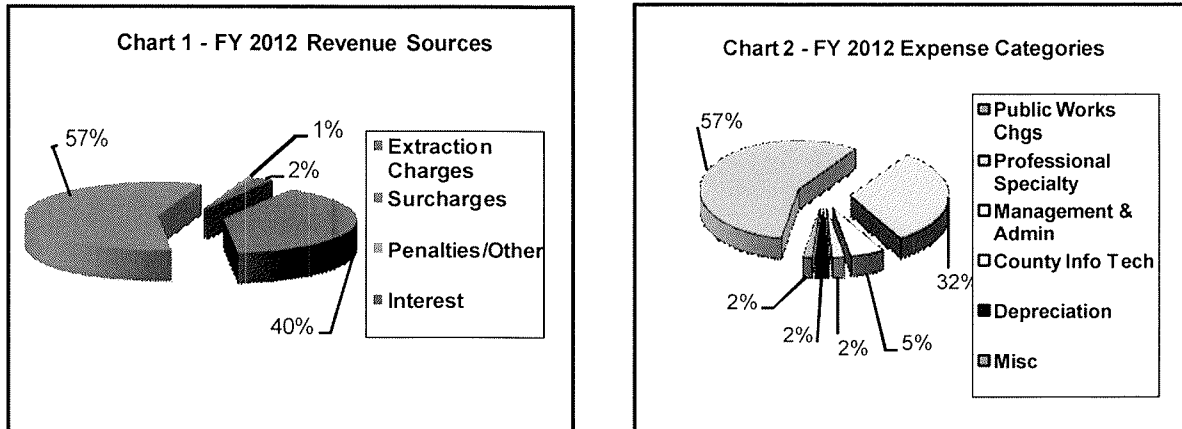


As depicted in the graph and discussed above, revenues for 2012 exceeded expenses by \$408,528, which is a reverse of 2011 where expenses exceeded revenues by \$41,479. This positive change is primarily caused by increased surcharge revenue.

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Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

Charts 1 and 2 provide a graphic view of 2012 revenue sources and 2012 expense categories.



As shown in Chart 1, the major revenue sources for 2012 are Surcharges at 57 percent and Extraction Charges at 40 percent of the Agency's revenue. Penalties and interest account for the remaining three (3) percent. The Agency's expenses are displayed in Chart 2. The Agency has no employees and contracts for all services with the Ventura County Public Works Agency (PWA) and other consultants. The largest expense categories are for contract services with PWA at 57 percent of expenses and Professional Specialty services at 32 percent of expenses. The remaining 11 percent represents expenses for the Agency's Executive Officer, fiscal/accounting services, information technology support, depreciation, and miscellaneous costs.

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Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

BUDGETARY INFORMATION

Table 3 presents the Agency's final budget and actual results for fiscal year 2012.

Table 3
Final Budget versus Actual Results
FY 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Extraction charges & surcharges	\$810,000	\$1,213,584	\$403,584
Interest income	15,000	29,349	14,349
Penalties	0	8,906	8,906
Other	0	704	704
Total Revenue	\$825,000	\$1,252,543	\$427,543
Expenses:			
Public Works Agency charges	\$499,200	\$481,020	\$18,180
Professional specialty services	681,525	267,868	413,657
Management & admin services	46,800	46,800	0
Supplies and minor equipment	7,700	1,001	6,699
Liability insurance	4,000	3,862	138
County GIS	100	0	100
County Info Tech	59,180	17,072	42,108
Depreciation Expense	0	17,764	(17,764)
Miscellaneous	7,665	8,628	(963)
Total Expenses	\$1,306,170	\$844,015	\$462,155

The Agency's fiscal year runs from July 1 to June 30. In June, the Agency adopts a budget for the new fiscal year starting July 1. Adjustments to the adopted budget may be approved throughout the fiscal year to address Board priorities. The Final Budget reflects approved adjustments.

The positive revenue variance of \$427,543 is attributable to actual surcharge revenue exceeding the budget primarily from over-pumping by Houweling's Nurseries; actual interest revenue exceeding budget due to the recognition of interest on the outstanding principal of the settlement agreements, and unbudgeted penalty revenue.

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Management's Discussion & Analysis For the Year Ended June 30, 2012 and 2011

On the expense side, the positive variance of \$462,155 is attributable to three major categories: 1. Public Works actual staff hours to perform non-capitalized work plan activities were less than estimated, 2. Professional specialty services included \$334,375 for the GSEAP grant awards but no payments were made in 2012, and 3. County Info Tech services for activities (other than software development) required fewer resources than originally estimated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets consist of six monitoring wells that were donated to the Agency in September 1990. The wells were depreciated over a 15 year useful life and are fully depreciated as of FY 2006. The Fox Canyon Groundwater Management online database system was put in production February 1, 2012. The system has many features that improve processes including online support, workflow management, and online semi-annual reporting and fee payment. The Agency has no debt.

FUTURE ACTIONS

On July 25, 2012, the Agency Board approved establishing the Executive, Fiscal and Operations Committees as an effective and efficient way to discuss and vet ideas before they are presented to the entire Board. The committees are composed of two Board members and appropriate staff. The committees' roles are as follows:

- The Executive Committee is assigned strategic planning and prioritization of work plan items.
- The Fiscal Committee is assigned budget development and tracking, and pursuit of grants.
- The Operations Committee is assigned performance of self reporting and meter calibration, irrigation allowance index, and software enhancements.

The Committees' recommendations and work product are discussed at future Board meetings.

On October 24, 2012, the Agency Board approved the transfer of \$500,000 from unrestricted funds to the restricted Groundwater Extraction Management Enforcement Surcharge (GEMES) Account bring the total in the GEMES account to \$1,008,826. Accrued interest is posted to the GEMES account.

REQUEST FOR INFORMATION

If you have any question about this report or need additional information, contact the Fox Canyon Groundwater Management Agency, 800 South Victoria Avenue, Ventura, CA 93009-1600.

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Statement of Net Assets June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
<i>Current Assets:</i>		
Cash and Investments	\$ 1,941,994	\$ 1,318,284
Designated Cash--GSEAP	500,000	500,000
Due from the County of Ventura	3,516	-
Receivables:		
Accounts	181,389	175,827
Accounts, from Related Parties	55,138	44,987
Interest	2,231	4,536
Notes, Net of Unamortized Discount, Current Portion	141,692	244,149
Total Current Assets	<u>2,825,960</u>	<u>2,287,783</u>
<i>Non-current Assets</i>		
Designated Cash--GEMES	504,961	504,961
Software Development in Progress	-	228,272
Software	298,443	-
Equipment	177,200	177,200
Less Accumulated Depreciation and Amortization	(194,964)	(177,200)
Notes, Net of Unamortized Discount, of \$13,570 and \$29,421 at June 30, 2012 and 2011, respectively.	244,738	386,430
Total Non-current Assets	<u>1,030,378</u>	<u>1,119,663</u>
Total Assets	<u><u>\$ 3,856,338</u></u>	<u><u>\$ 3,407,446</u></u>
Liabilities:		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 2,545	\$ 31,751
Due to County of Ventura	117,029	47,459
Total Current Liabilities	<u>119,574</u>	<u>79,210</u>
Total Liabilities	<u>119,574</u>	<u>79,210</u>
Net Assets:		
Invested in capital assets	280,679	228,272
Unrestricted	3,456,085	3,099,964
Total Net Assets	<u>3,736,764</u>	<u>3,328,236</u>
Total Liabilities and Net Assets	<u><u>\$ 3,856,338</u></u>	<u><u>\$ 3,407,446</u></u>

The notes to the financial statements are an integral part of this statement.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Extraction Charges and Surcharges	\$ 1,213,584	\$ 756,857
Miscellaneous revenues	704	-
Interest and Penalties on Delinquent Accounts	<u>8,906</u>	<u>8,962</u>
Total Operating Revenues	<u>1,223,194</u>	<u>765,819</u>
Operating Expenses		
Ventura County Public Works Agency Charges	481,020	483,601
Professional Specialty Services	332,049	353,741
Management and Administrative Services	4,427	6,275
Supplies and Minor Equipment	515	314
Liability Insurance	3,862	3,801
Depreciation expense	17,764	-
Miscellaneous	<u>4,378</u>	<u>2,791</u>
Total Operating Expenses	<u>844,015</u>	<u>850,523</u>
Operating Income/(Loss)	<u>379,179</u>	<u>(84,704)</u>
Non-Operating Revenues and (Expenses)		
State Aid-Other	-	237
Interest and Investment Income	<u>29,349</u>	<u>42,988</u>
Total Non-Operating Revenues and (Expenses)	<u>29,349</u>	<u>43,225</u>
Change in Net Assets	408,528	(41,479)
Net Assets at Beginning of Year - Original	3,328,236	3,301,819
Prior period adjustment	<u>-</u>	<u>67,896</u>
Net Assets Beginning - Restated	<u>3,328,236</u>	<u>3,369,715</u>
Net Assets at End of Year	<u><u>\$ 3,736,764</u></u>	<u><u>\$ 3,328,236</u></u>

The notes to the financial statements are an integral part of this statement.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statement of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 1,217,632	\$ 758,759
Cash payments for operating expenses	<u>(799,554)</u>	<u>(898,626)</u>
Net Cash Provided (Used) by Operating Activities	<u>418,078</u>	<u>(139,867)</u>
Cash Flows from Noncapital Financing Activities:		
Payments received on notes receivable	<u>244,149</u>	<u>230,000</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	<u>(70,171)</u>	<u>(160,376)</u>
Cash Flows from Investing Activities:		
Interest on investments	<u>31,654</u>	<u>24,951</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>623,710</u>	<u>(45,292)</u>
Cash and Cash Equivalents - Beginning of Year	<u>2,323,245</u>	<u>2,368,537</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 2,946,955</u></u>	<u><u>\$ 2,323,245</u></u>

The notes to the financial statements are an integral part of this statement.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statement of Cash Flows
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating income	\$ 379,179	\$ (84,704)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	17,764	-
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(5,562)	(7,060)
Increase (decrease) in accounts payable and accrued expenses	(29,206)	5,224
Increase (decrease) in Due to the County of Ventura	<u>66,054</u>	<u>(53,327)</u>
Net Cash Provided by Operating Activities	\$ 428,229	\$ (139,867)
Cash and Cash Equivalents		
Financial Statement Classification:		
Cash and Investments	\$ 1,941,994	\$ 1,318,284
Designated Cash	<u>1,004,961</u>	<u>1,004,961</u>
Total Cash and Cash Equivalents - Reported on Balance Sheet	<u>\$ 2,946,955</u>	<u>\$ 2,323,245</u>

The notes to the financial statements are an integral part of this statement.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Organization of the Agency

The Fox Canyon Groundwater Management Agency (the "Agency"), was created by the State of California for the preservation of groundwater resources within the territory of the Agency for agricultural, municipal and industrial uses. The Agency was approved by the Governor on September 13, 1982, under Assembly Bill No. 2995, Chapter 1023. The Agency is exempt from federal and state income taxes as a political subdivision of the State of California as described in the Health and Safety Code, Section 32000.

The Agency is an independent special district, separate from the County of Ventura or any city government. All powers of the Agency are exercised by the Board of Directors. The Board consists of five directors who represent the County of Ventura, the United Water Conservation District, the seven small water Districts within the Agency, the five incorporated cities within the Agency, and local farmers. Each Board member is appointed by his or her respective organizations or groups, except for the farmer representatives, who are appointed by the other four seated members from a list of candidates jointly supplied by the County Farm Bureau and the County Agriculture Association.

The Agency's reporting entity includes all significant operations and revenue sources which the Agency Board of Directors exercises oversight responsibility and determined under the criteria established by the Governmental Accounting Standards Board (GASB) Statement 14, the District reports legally separate entities as blended component units if the District's Board of Directors are financially accountable for the entities and the relationship between the District and the entities is such that in substance they are one entity. The staff of Ventura County worked for Fox Canyon Management Agency. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service.

(B) Management's Review

In preparing the financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through April 18, 2013, the date the financial statements were available to be issued.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) Basis of Accounting

The Agency is accounted for as an enterprise fund in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the expenses, including depreciation, of providing goods and services to the general public are recovered through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, or other purposes. Because the Agency is accounted for as an enterprise fund, the Agency uses the economic resources measurement focus and the accrual basis of accounting for financial statement reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets.

The Agency applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. The agency has elected not to apply FASB pronouncements issued after November 30, 1989.

Cash flows from operating activities are presented using the direct method. Cash and cash equivalents are assets in cash form or in a form that can be easily converted to cash within 90 days. The Agency's cash and investments held in the Ventura County Treasury, as discussed below, are included in this definition as they are available to the agency virtually upon demand.

Statement of Net Assets – The statement of net assets is designed to report the financial position of the Agency at the balance sheet date. The Agency's fund equity (net assets) shown on this statement is separated into two categories defined as follows:

- **Invested in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation. This category of net assets is considered non-expendable.

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Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of “invested in capital assets,” and are not subject to constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments. The Agency’s Board of Directors may designate portions of unrestricted net assets for particular purposes.

Statement of Revenues, Expenses and Changes in Net Assets – The statement of revenues, expenses and changes in net assets presents the results of operations of the enterprise fund for the current period. Revenues are reported by major source. Operating revenues and expenses are presented separately from non-operating items and an operating income subtotal is presented prior to adjustment for non-operating items.

(D) Revenue Recognition

Extraction Charges – The primary revenue source for the Agency is extraction charges that are assessed at \$4.00 per acre-foot against all well users within the geographic boundaries of the Agency. This rate has been in effect since July 1, 2005 when the per acre-foot extraction charge was increased from \$3.00 per acre-foot to \$4.00 per acre-foot. Extraction charges are recognized in the period the water is extracted based on reports received from well operators. Although some well operators fail to timely report their extractions and there is the possibility of incorrect reporting, the Agency considers unreported extraction charge revenue to be immeasurable and does not recognize it until it becomes measureable in the form of a report from the operator. The Agency imposes a \$500 civil penalty for operators who fail to report timely.

Surcharges – The intent of the surcharge is to discourage extraction of groundwater in excess of the approved allocation when that extraction will adversely affect achieving safe yield of water of any basin within the Agency. Effective January 1, 2011, surcharges are assessed using a tiered structure with a base of \$1,105 per acre-foot for all extractions in excess of approved allocations that do not qualify for irrigation efficiency; an additional \$250 per acre-foot over 25 but less than 100 acre-feet in excess of the approved allocation, and an additional \$500 per acre-foot over 100 acre-feet in excess of the approved allocation. This structure replaced the fixed fee surcharge of \$1,150. Surcharge fees are assessed annually as of December 31 and payable by February 1, revenue is recognized in the period when received, as the amounts are not considered reasonably estimable and are therefore not considered susceptible to accrual.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Settlement Agreements – In the past, the Agency has settled pending litigation in its favor, resulting in written settlement agreements and notes receivable to the Agency. Non-operating revenue is recorded at the time of the settlement, less any discount for imputed interest on the resulting note receivable. No settlement revenues were recognized for the year ended June 30, 2012, although the Agency did have outstanding notes receivable from settlement agreements negotiated in previous fiscal years.

(E) Operating and Non-operating Revenues and Expenses

The Agency's primary purpose is to provide, manage, and preserve groundwater resources within its boundaries. Operating revenues are those normally recurring revenues that arise directly from accomplishing this primary purpose. Accordingly, the Agency defines operating revenues as extraction charges, interest and penalties on delinquent accounts, surcharges, and other charges. Operating expenses include those costs incurred to accomplish the Agency's primary purpose. These costs include Public Works Agency charges, professional specialty services, management and administrative expenses, insurance expense, and depreciation on capital assets. Revenues from settlements and interest and investment income are considered non-operating revenues. Non-operating revenues are any revenues not meeting the definition of operating revenues above.

(F) Capital Assets.

Capital assets are recorded at cost, except for capital assets contributed to the Agency, which are stated at their market value on the date contributed. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

<u>Category</u>	<u>Capitalization Level</u>	<u>Useful Life</u>
Equipment	\$5,000	2-30
Purchased Software	\$5,000	2-10
Internally- Generated Software	\$50,000	2-10

Management chooses a useful life for each asset based on the expected length of time the asset will continue to provide service to the agency.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) Designated Assets.

By resolution of the Board of Directors, the Agency has designated certain portions of its cash and investments to be used for specific purposes. Designated cash is classified as either current or non-current on the Statement of Net Assets depending on whether or not the designated use is likely to occur within one year.

(H) Use of Estimates.

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Note 2. CASH AND INVESTMENTS

As Fox Canyon Groundwater Management Agency's Joint Powers Agreement designates its treasurer to be the Treasurer of Ventura County (a member agency), pursuant to Section 6505.5 of the California Government Code. Therefore, all cash and investments of Fox Canyon Groundwater Management Agency as of June 30, 2012 and June 30, 2011 are held in the investment pool managed by the Ventura County Treasurer. As provided for by California Government Code Section 53635, the cash balances are invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The County Treasurer invests Fox Canyon Groundwater Management Agency's funds in accordance with state statutes and the County's Investment Policy Statement (IPS), as approved by the Treasury Oversight Committee and the County Board of Supervisors. The policy, drafted in accordance with state law, emphasizes safety, liquidity and yield and follows the "prudent investor rule." Investments permitted by the IPS include obligations of the U.S. Treasury, agencies and instrumentalities, or commercial paper rated A-1 or better by Standard and Poor's Ratings Services (S & P) or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, corporate notes, negotiable certificates of deposit, obligations of the State of California and obligations of any local agency within California. Investment earnings are allocated based on average daily balance in the Treasurer's pool for the calendar quarter. The earnings are distributed to participants twice per quarter as cash is received, and accrued at year-end. The Investment Pool

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Years Ended June 30, 2012 and 2011

Note 2. CASH AND INVESTMENTS (continued)

includes both voluntary and involuntary participants for whom cash and investments are held by the County Treasurer. The total percentage share of the Investment Pool related to involuntary participants is estimated at 43 percent. All investments are reported at fair value, which is either the market price or amortized cost.

Fox Canyon Groundwater Management Agency's total cash and investments of \$2,946,955 in at June 30, 2012 and \$2,323,245 at June 30, 2011 consist of a ratable portion of the total investment pool of the County of Ventura (County). Included in these amounts are designated cash and investments of \$1,004,961 at June 30, 2012 and 2011. These designated amounts are segregated within the County's general ledger system, but are held with the County Treasurer as part of the overall investment pool.

Disclosures required by GASB Statement No. 40 - *Deposit and Investment Risk Disclosures* are provided in the County's Comprehensive Annual Financial Report. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are stated at fair value. Fair value is determined based on values provided by the County's investment advisory firm. The fair value of Fox Canyon Groundwater Management Agency's position in the pool approximates the value of the pool shares. Realized and unrealized gains and losses are included in investment earnings. However, County investments are primarily held to maturity and only actual earnings are distributed to pool participants. Therefore, the unrealized fair value gain or loss is not available for allocation except if actually realized.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Years Ended June 30, 2012 and 2011

Note 3. CAPITAL ASSETS

Capital assets consist of six monitoring wells that were donated to the Agency in September 1990 and the Fox Canyon Online Database system completed during the year ended June 30, 2012. The wells were depreciated over a 15 year useful life and are fully depreciated as of FY 2006. The online database system was put in service on February 1, 2012 and is being amortized over seven years. Capital asset activity for the fiscal years ended June 30, 2012 and 2011 is summarized below:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Capital Assets, nondepreciable				
Software development in progress	\$ 228,272	\$ 70,171	\$ (298,443)	\$ -
Capital Assets, depreciable				
Equipment	177,200	-	-	177,200
Software	-	-	298,443	298,443
TOTALS	405,472	70,171	-	475,643
Less accumulated depreciation	(177,200)	(17,764)	-	(194,964)
Total Capital Assets, Net	<u>\$ 228,272</u>	<u>\$ 52,407</u>	<u>\$ -</u>	<u>\$ 280,679</u>

	<u>Original June 30, 2010</u>	<u>Prior Period Adj.</u>	<u>Restated June 30, 2010</u>	<u>Additions</u>	<u>June 30, 2011</u>
Capital Assets, nondepreciable					
Software development in progress	\$ -	\$ 67,896	\$ 67,896	\$ 160,376	\$ 228,272
Capital Assets, depreciable					
Equipment	177,200	-	177,200	-	177,200
TOTALS	177,200	67,896	245,096	160,376	405,472
Less accumulated depreciation	(177,200)	-	(177,200)	-	(177,200)
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 67,896</u>	<u>\$ 67,896</u>	<u>\$ 160,376</u>	<u>\$ 228,272</u>

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Years Ended June 30, 2012 and 2011

Note 4. NOTES RECEIVABLE

The Agency settled outstanding litigation with Thornhill Mutual Water Company on September 12, 2007, calling for payment of \$510,000, payable to the Agency in annual installments of no less than \$80,000, with imputed interest of \$52,806 (4.325%) over the life of the note recognized as a discount and final payment due not later than June 30, 2012. In accordance with Generally Accepted Accounting Principles, the settlement amount of \$510,000 was properly classified as a note receivable and discounted by a total of \$52,806 of imputed interest using an implied interest rate of 4.325 percent (the County Treasury rate for the quarter ending September 30, 2007). The note is collateralized by a letter of credit in the amount of \$430,000. This note was fully repaid during the fiscal year ended June 30, 2012.

The Agency settled outstanding litigation with Houweling Nurseries Oxnard, Inc. on April 15, 2009, calling for payment of \$1,000,000, payable to the Agency in annual installments of no less than \$150,000, with final payment due no later than April 15, 2014. In accordance with Generally Accepted Accounting Principles, the settlement amount of \$1,000,000 was properly classified as a note receivable and discounted by a total of \$56,139 of imputed interest using an implied interest rate of 2.15 percent (the County Treasury rate for the quarter ending June 30, 2009). The note is collateralized by a letter of credit in the amount of \$850,000.

For the years ended June 30, 2012 and 2011, a combined \$15,851 and \$21,898, respectively, of the discounts on notes receivable described above was amortized and included in interest revenue. The balance remaining of the unamortized discount was \$13,570 as of June 30, 2012 and \$29,421 as of June 30, 2011.

Note 5. RISK MANAGEMENT

The Agency is primarily exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. To protect itself, the Agency contracts with the County of Ventura for legal services and maintains an errors and omissions policy in the amount of \$1,000,000 through the County of Ventura.

Note 6. UNRESTRICTED DESIGNATED NET ASSETS

The Agency's net assets that are not invested in capital assets are all classified as unrestricted.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 6. UNRESTRICTED DESIGNATED NET ASSETS (continued)

Currently, \$504,961 of net assets (unrestricted – designated net assets) is designated for groundwater extraction management enforcement activities. On June 23, 2010 the Board authorized increasing this amount to \$500,000 (plus interest earned) for fiscal year 2011. The designation remained in effect for fiscal year 2012. The reason for the increase is to ensure sufficient funds are available for extraordinary enforcement and litigation costs that may be needed in order to resolve a specific extraordinary groundwater management problem or enforcement case.

On June 23, 2010, the Board designated \$500,000 of the Agency's net assets for the Groundwater Supply Enhancement Assistance Program (GSEAP) for fiscal year 2011. The designation remained in effect for fiscal year 2012. The purpose of the program is to facilitate and assist local water agencies with funds to promote groundwater supply enhancement project. As envisioned, the Agency would work cooperatively with local water agencies, identify specific project needs, and potentially fund a component of an eligible water project that promotes increased groundwater supply within the Agency. The Agency anticipates expending these funds during fiscal year 2012-2013.

Note 7. RELATED PARTY TRANSACTIONS

The Agency contracts with the County of Ventura for professional specialty services. The employees of Ventura County provide professional, technical, financial, billing, administrative, clerical, and computer information services to the Fox Canyon Groundwater Management Agency. The Agency compensates the County of Ventura for time spent by County employees on the Agency's business and for the services provided to the Agency by the County. The Agency's total expense paid to the County of Ventura for Public Works Agency charges other than administrative services for the years ended June 30, 2012 and 2011 and the amounts due to the County of Ventura as of June 30, 2012 and 2011 are identified in the "Ventura County Public Works Agency Charges" expense line. In addition to the Public Works Agency charges shown on the face of the financial statements, the Professional and Specialized Services expense line and amounts capitalized in software development include an additional \$183,144 paid to the County of Ventura in 2011-2012 and \$248,195 in 2010-2011. The Agency also contracts with the United Water Conservation District, an organization that shares a board member with the Agency, for professional hydrologist services and has made a contribution to the District's groundwater model. The Agency paid \$142,174 in 2011-2012 and \$90,893 in 2010-2011 to the United Water Conservation District. The Agency recognized revenue of approximately \$55,100 and \$59,000 in 2011-2012 and 2010-2011, respectively, from

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Years Ended June 30, 2012 and 2011

Note 7. RELATED PARTY TRANSACTIONS (continued)

United Water Conservation District for groundwater extraction fees. The Agency also recognized revenue of \$64,700 and \$45,900 in 2011-2012 and 2010-2011, respectively, from other entities sharing a Board member with the Agency, including Ventura County Waterworks Districts, the City of Camarillo, and Zone Mutual Water Company. Receivables from United Water Conservation District and other entities sharing a board member with the Agency are displayed separately on the Statement of Net Assets.

Note 8. COMMITMENTS, CONTINGENCIES, ESTIMATES, AND CONCENTRATIONS

The Agency has nine customers (United Water Conservation District, City of Oxnard, Calleguas Municipal Water District, City of Camarillo, City of San Buenventura, Victoria Nursery, Inc., Pleasant Valley County Water District, Houweling's Nurseries Oxnard, Inc., and Southland SOD Farms) that make up over half of extraction charge revenues. Failure to pay by these customers could cause financial strain on the Agency.

Note 9. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2012, the Agency completed a project to develop an online database system to track its well extraction data. Costs for the project had been incurred beginning in the fiscal year ended June 30, 2010 and were ongoing until completion. Subsequent to June 30, 2012, the Agency determined that these costs would be more appropriately capitalized according to the requirements of GASB Statement No. 51 rather than being expensed as incurred. Accordingly, the accompanying June 30, 2011 comparative financial statements have been restated to reflect an increase in Construction in Progress and net assets of \$228,272 over what had been previously reported as of June 30, 2011. Correspondingly, expenses during the 2010-2011 fiscal year were reduced by \$160,376, with the remaining \$67,896 recorded as an adjustment to beginning net assets balance as of July 1, 2010 as the related expenses were incurred in the 2009-2010 fiscal year.

OTHER REPORT

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency
Ventura, California

We have audited the accompanying basic financial statements of the Fox Canyon Groundwater Management Agency (the "Agency"), as of June 30, 2012 and for the year then ended and have issued our report thereon dated April 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency

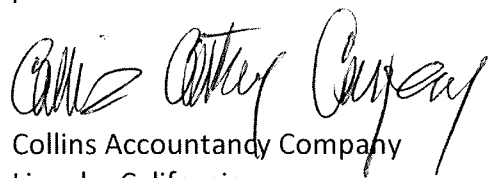
prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Collins Accountancy Company', is written over the printed name of the company.

Collins Accountancy Company
Lincoln, California
April 18, 2013

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Schedule of Findings and Responses For the Year Ended June 30, 2012

Finding 2012-1: Irrigation Efficiency Exemptions from Penalties

Criteria

The Agency's policies require that a surcharge be assessed against well operators who extract water in excess of their historical allocations, except in certain circumstances. Well operators can qualify for an exemption to surcharge by submitting an application showing they have achieved a measure of irrigation efficiency. Under Ordinance 8.4, Section 5.6.1.2.2, applications for irrigation efficiency are due by February 1 of each year unless extended by the Board of Directors.

Condition

In our analysis of extraction data, we identified 18 CombCodes where the well operators had pumped water in excess of their historical allocation, accumulated credits, and baseline credits and had not, at the time of the initial analysis, been flagged in the system as having been approved for an irrigation efficiency exemption. Payment of surcharges had been received on 1 of these 18 CombCodes. Since the time when the initial analysis was performed, irrigation efficiency was approved for 5 of the 17 CombCodes with unpaid surcharges, leaving 12 CombCodes with unpaid surcharges and without approved irrigation efficiency. Management has stated they are in the process of following up with the operators with larger amounts of surcharges potentially due if no irrigation efficiency is claimed.

Cause

It appears surcharges are not immediately billed to well operators who extract in excess of the historical allocations as it is unclear whether those operators will file for irrigation efficiency or not.

Effect or Potential Effect

Without proper identification of well operators who do have irrigation efficiency exemptions, surcharges could be inadequately applied. In addition, lack of timely collection of penalties and surcharges could make collection more difficult in the future.

Recommendation

We recommend that operators with potential surcharges be contacted soon after the deadline for irrigation efficiency filing so that surcharges can be assessed if the operators do not qualify. We further recommend that the Board of Directors clarify whether the past policy of granting extensions of time to file for irrigation efficiency will be continued.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Schedule of Findings and Responses For the Year Ended June 30, 2012

Finding 2012-1: Irrigation Efficiency Exemptions from Penalties (continued)

Views of Responsible Officials and Planned Corrective Actions

The Agency's current workflow process only determines if there is a failure to file an irrigation efficiency application after staff keys in the last half of the year's extraction data (typically Feb-April). If we determine a surcharge is due, but an irrigation efficiency application was not filed but normally would have been, we contact the operator. This follow up can sometimes take several weeks depending on work and Board directed priorities. Our experience is that most of these issues can be resolved within several months. The fiscal impact is very limited, in that: 1) Agency does not rely on this revenue to support its core operations, and 2) penalties are likely recovered within the same fiscal year.

Finding 2012-2: Capitalization of Software

Criteria

GASB Statement 51 provides for the recording of customized software as a capital asset if the software development proceeds past the preliminary project stage and management has committed to funding the project.

Condition

In the 2009-2010 fiscal year, the Agency contracted with the County of Ventura Information Technology Department to produce a customized online database that would track groundwater extraction and financial data related to the Agency. The database was placed into service during the 2011-2012 fiscal year. Initially, the costs associated with the project were expensed as incurred. We discussed the matter with management and management agreed to capitalize the development costs meeting the criteria established in GASB 51 in the total amount of \$298,443.

Cause

Software development is an unusual activity for the entity and it appears capitalization of the costs was inadvertently omitted.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Schedule of Findings and Responses For the Year Ended June 30, 2012

Finding 2012-2: Capitalization of Software (continued)

Effect or Potential Effect

Because software provides benefits over several future years, recognizing all of the expenses at the time of development rather than capitalizing the software and amortizing it over its estimated useful life can result in an overstatement of expenses at the time of development and an understatement of expenses as the software is being used.

Recommendation

We recommended capitalization of the software and management prepared the appropriate adjusting journal entries. We recommend that the Agency's operations be evaluated each year in light of new accounting standards to ensure unusual activities or those covered by new accounting standards are correctly reported.

Views of Responsible Officials and Planned Corrective Actions

We agree and will implement appropriate review of the Agency's approved initiatives and financial transactions to ensure that they are properly recorded and reported in accordance with applicable accounting standards.